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C O N F I D E N T I A L SECTION 01 OF 03 MOSCOW 002372

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SUBJECT: ASSISTANT SECRETARY GORDON'S MEETING WITH RUSSIAN  
DEPUTY PRIME MINISTER IGOR SHUVALOV: WTO, G-20

REF: MOSCOW 2204

Classified By: Ambassador John Beyrle, Reasons 1.4 b&d

¶1. (C) Summary: Deputy Prime Minister Shuvalov met with A/S Gordon and the Ambassador on September 9 to discuss bilateral economic cooperation in advance of his trip later this month to Washington and the Pittsburgh G-20 Summit. Shuvalov agreed that the July Summit and the Bilateral Presidential Commission would play an important role in buttressing economic and business ties. The main stumbling block to the economic relationship, in Shuvalov's view, was the WTO accession process. He maintained that to date, the U.S. had been the main obstacle to Russia's accession and that he needed to present WTO skeptics in Russia with "concrete results" from his trip to Washington (i.e. flexibility on outstanding bilateral trade issues and lifting of Jackson-Vanik). He acknowledged, however, that GOR's decision to accede to the WTO as a customs union with Belarus and Kazakhstan had clouded the issue.

¶2. (C) A/S Gordon and the Ambassador reiterated U.S. support at the highest levels for Russia's WTO accession, urging Russia to proceed as an individual country. Shuvalov indicated that entry into effect of the customs union could be delayed up to two years, giving Russia and Kazakhstan (sans Belarus) time to complete their respective accession. In turn, Russia would expect flexibility - particularly from the U.S. - on outstanding differences, such as state enterprises. On the G-20 process, Shuvalov said Russia sided with the majority of participant countries on the need to continue government financial support packages. However, the Russian economy needed to modernize and diversify so as to lessen its dependence on volatile oil prices. End Summary.

WTO - A Stumbling Block  
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¶3. (C) Deputy Minister Shuvalov noted that following the July Summit, President Medvedev instructed his economic team to intensify cooperation with the U.S. at the highest levels. Before heading for the G-20 Summit in Pittsburgh, Shuvalov said he was scheduled to meet in Washington on September 21 with the U.S. Trade Representative, the NEC Directors, and possibly other senior officials. The main "stumbling block" in forging stronger economic links was the WTO, Shuvalov claimed. "We want to be in the WTO," he said, "but cannot because of the U.S." Shuvalov explained that many Russians were pessimistic about WTO accession if not outright opposed, and that he needed to come back from Washington with "results" (i.e., a strong indication from the U.S. that the accession process was moving forward).

One such positive signal, Shuvalov suggested, would be lifting Jackson-Vanik.

14. (C) Shuvalov acknowledged that the GOR's June decision to enter the WTO as a customs union with Belarus and Kazakhstan appeared to have "slowed down" Russia's accession process, particularly after meetings between USTR Kirk and Minister of Economic Development Nabiullina the previous week in St. Petersburg had seemed to open a way forward. While WTO accession was "touched upon at the at the July Summit. Shuvalov doubted that either President Obama or Medvedev fully grasped the substance of the issue. Moreover, a growing number of Russians - frustrated by the lack of progress in Russia's accession - were declaring the WTO process was merely a "game", and that Russia would be "let into the club" if it "behaved" - (i.e., if it backed down on certain outstanding bilateral trade issues.) In spite of the domestic WTO skeptics, President Medvedev had made it clear in at recent G-8 summit in Italy that WTO accession remained a strategic objective for Russia and that Russia would be willing to move forward independently on its accession process, albeit joining at the same time as Belarus and Kazakhstan.

#### U.S. Support for Russia's WTO Accession

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15. (C) A/S Gordon remarked that following the momentum of the July Summit, the U.S. was intent on expanding bilateral economic relations. The Bilateral Presidential Commission would play an important role in buttressing those relations.

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Stronger bilateral economic links would contribute to the prosperity of both countries: it was not a "zero-sum" game. The U.S. supported Russia's WTO accession and was prepared to work with Russia to achieve that goal. For that reason, the U.S. was surprised and concerned by GOR's June announcement that Russia intended to accede to the WTO as a Customs Union with Belarus and Kazakhstan. Russia's progress toward accession would only be delayed by going in tandem with Belarus.

16. (C) A/S Gordon stated that the Obama administration shared the GOR's view that Jackson-Vanik was an anachronism, and the President was intent on moving beyond Jackson-Vanik. However, it would be difficult to persuade Congress to approve such a measure if other bilateral trade irritants (i.e. pork and poultry tariffs) persisted.

17. (C) Shuvalov responded that while WTO was a strategic priority, Russia also had regional trade interests. For 16 years, Russia had been simultaneously pursuing WTO accession and a customs union with its neighbors. Russia's decision to enter the WTO as part of a customs union accommodated both its regional interests and ties to the WTO process. However, it also reflected Russia's frustration with the lengthy WTO negotiation process. He maintained that the U.S. held the key to Russia's accession. A year ago, he alleged, the U.S. State Department had sent strong signals to the Geneva Working Group not to finalize a deal with Russia, and the Australian and Canadian delegations complied by refusing to talk with the Russians. Shuvalov then quipped: "If the U.S. could persuade the world to recognize Kosovo in two weeks, it could certainly persuade its WTO partners to get Russia into the club."

18. (C) A/S Gordon and Ambassador Beyrle reiterated that the Obama Administration was taking a fresh approach to the relationship and was committed to overcoming past problems. The impasse could be overcome at the political level. That is, the President saw the WTO as a means for achieving mutually beneficial cooperation with Russia. The U.S. was working towards an agreement on outstanding issues: phytosanitary, state enterprises, IPR and encryption. The process would be easier if Russia pursued its accession as an

individual country.

#### Shuvalov Seeks a More Flexible U.S. Approach

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¶9. (C) Shuvalov responded that Russia, Belarus and Kazakhstan planned to finalize the customs union on November 27, but that the date from which the union would actually take effect could be postponed for one or two years. This would allow Kazakhstan enough time to finalize its accession (the same would not be true for Belarus). In this way, Russia would also be able to move forward separately from the other two. Shuvalov said much depended on the U.S. taking a "softer" and more flexible approach on outstanding bilateral issues, i.e., encryption, IPR, state enterprises. He hoped again for concrete results during his upcoming trip to Washington, but cautioned that there were certain forces in Russia as well as the U.S. that were opposed Russia's WTO aspirations.

G-20

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¶10. (C) Shuvalov and A/S Gordon briefly discussed the upcoming G-20 Summit. Shuvalov reported that Finance Minister Kudrin had just returned from the two-day summit of G-20 Finance Ministers in London, and agreed with most participants that it was premature to end government stimulus and financial support packages. Shuvalov said Russia was beginning to pull out of its recession, but volatility in oil prices could bring back problems next year. He supported Kudrin's emphasis on the need to modernize and diversify the economy.

Comment

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¶11. (C) Shuvalov confirmed the existence of a struggle within the GOR leadership between "protectionists" opposed to WTO and pro-WTO integrationists. He also minced no words in expressing Russia's frustration over the extended WTO

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negotiating process, implying it had much to do with Russia's decision to proceed as a customs union with Belarus and Kazakhstan. While failing to shed light on where Russia is ultimately headed, Shuvalov signaled that Russia would be willing to delay the customs union's taking effect if it could make tangible progress towards WTO accession. End Comment.

¶12. (U) This cable was cleared by A/S Gordon.

Beyrle